

# Teacher Lesson Plan

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Theme 5: Impact of Taxes  
Lesson 1: How Taxes Influence Behavior

## Time Frame

One to four class periods

## Curriculum Area(s)

- History/Social Studies
- Civics/Government
- Economics
- Family and Consumer Sciences
- Technology

## Purpose

To help students understand how taxes may influence the way people spend and save their money

## Objectives

Students will be able to

- describe the purpose of the sin tax, the gasoline excise tax, and the luxury tax.
- explain how such taxes affect the behaviors and choices of taxpayers.

## Materials

### *Online*

PowerPoint™ Presentation—Theme 5 Overview: Impact of Taxes

Student Lesson—How Taxes Influence Behavior

Activity 1: The Cigarette Tax

Activity 2: The Gasoline Tax

Activity 3: Tax Scrambler

Activity 4: Tax Facts Crossword

Assessment—How Taxes Influence Behavior

Assessment Solutions—How Taxes Influence Behavior

### *Print (PDF)*

Info Sheet 1—Three Taxes that Influence Behavior

Info Sheet 2—Federal Excise Taxes, Fiscal Year 1933

Worksheet—Three Taxes that Influence Behavior

Worksheet Solutions—Three Taxes That Influence Behavior

Assessment—How Taxes Influence Behavior

Assessment Solutions—How Taxes Influence Behavior

Complete Lesson Pack

### **Web Links**

The Federal Cigarette Tax Is Far Lower Than Historical Levels  
<http://www.tobaccofreekids.org/research/factsheets/pdf/0092.pdf>  
IRS Tax Interactive <http://www.irs.gov/taxi>

### **Background**

Legislators have three goals in mind as they prepare tax laws:

- the need to raise revenue,
- fairness to taxpayers, and
- the ability to influence taxpayers' behavior.

Below are three **excise taxes** designed to influence the behavior of taxpayers. All are **direct taxes**.

A **sin tax** is a significant tax on a product or service that is unhealthy. The tax is used to discourage the purchase and use of products that pose a risk to health, such as tobacco and alcohol.

Puritan founders of the New England colonies used the earliest sin taxes, called sumptuary taxes. High taxes were levied on certain foods, items of clothing, tobacco, and alcohol. Early governors used the tax to discourage conspicuous consumption and what was considered unsuitable behavior.

The **gasoline excise tax** is not meant to discourage use of gasoline. It is a **user tax**. People who use gasoline pay taxes on it. In turn, the government spends the tax revenues on maintaining and building roads and highways and regulating underground pollution caused by gas storage. Since 1982, funds also have been used to develop and maintain mass transportation in urban areas.

The gasoline tax was first proposed in 1914 as a federal tax but was not instituted until 1932. (State governments first implemented gasoline taxes in 1919.)

**Luxury taxes** tax expensive, nonessential items. The tax requires those who buy luxury goods such as luxury cars to pay more for the goods. Revenue is then redistributed to benefit all citizens through government programs. The luxury tax is a progressive tax—it takes more from the wealthy than from the poor.

The luxury tax can make certain products and services more desirable—there is a prestige in owning an item that is considered a luxury. A downside to luxury taxes is that they can be too effective. When luxury taxes become too steep, people may choose to stop purchasing a particular product.

## Key Terms

**direct tax**—A tax that cannot be shifted to others, such as the federal income tax.

**excise tax**—A tax on the sale or use of specific products or transactions.

**gasoline excise tax**—An excise tax paid by consumers when they purchase gasoline. The tax covers the manufacture, sale, and use of gasoline.

**luxury tax**—A tax paid on expensive goods and services considered by the government to be nonessential.

**sin tax**—A tax on goods such as tobacco and alcohol.

**user tax**—A tax that is paid directly by the consumer of a good, product, or service.

## Opening the Lesson

Show the PowerPoint™ Presentation—Theme 5 Overview: Impact of Taxes.

Distribute Info Sheet 1—Three Taxes That Influence Behavior, and discuss the main points with students.

## Developing the Lesson

Ask students:

- How do you think taxes affect people's behavior?

***Increased taxes on goods and services might make people less likely to purchase those goods or services. Some goods and services are necessary and the tax will make no difference.***

Reinforce the concept that the process of legislating taxes is a constant balancing act between the goals of generating revenue, achieving fairness to all taxpayers, and influencing taxpayers' behavior.

## Online Activities

Direct students to Student Lesson—How Taxes Influence Behavior.

Have students complete one or more of the following activities.

- Activity 1: The Cigarette Tax—Determine if the cigarette tax is high enough to discourage smoking.
- Activity 2: The Gasoline Tax—Calculate the tax you'll pay for gas in four states.
- Activity 3: Tax Scrambler—Tax your brain in this fun activity!
- Activity 4: Tax Facts Crossword—Use the clues to solve this tax crossword.

## Print Activity

Print Worksheet—Three Taxes That Influence Behavior and distribute it to students.  
Worksheet Solutions—Three Taxes that Influence Behavior

## Classroom Activity

Distribute Info Sheet 2—Federal Excise Taxes, Fiscal Year 1933.

Have students find the goods that were subject to excise taxes in 1933 and are still taxed today. Next, have them find items that were dropped from the list between 1933 and 2000.

Discuss with students the goals tax legislators could have achieved by taxing chewing gum during the Great Depression. Have students think about excise taxes in terms of how they influence consumers' behavior. Tell students that at that time, chewing gum would have seemed a luxury. People who could afford to buy gum probably could afford to pay the additional tax.

### **Concluding the Lesson**

Have students summarize the three taxes discussed in this lesson and explain how they influence spending habits. Have students read the local paper for recent developments or changes to the taxes mentioned here.

#### ***Online Assessment***

Have students complete [Assessment—How Taxes Influence Behavior](#) for this lesson.  
[Assessment Solutions—How Taxes Influence Behavior](#)

#### ***Print Assessment***

Print [Assessment—How Taxes Influence Behavior](#) and have students complete it on paper.  
[Assessment Solutions—How Taxes Influence Behavior](#)

#### ***Links***

See [Theme 2, Lesson 1](#) and [Theme 2, Lesson 2](#) for more information on excise taxes.